AN ANALYSIS OF THE IMPACT ON MISSOURI'S PUBLICLY FUNDED MENTAL HEALTH SERVICES IF HOUSE BILL 253 IS ENACTED

Under direction of the Missouri Mental Health Commission, the Department of Mental Health (DMH) has analyzed the potential long-term impact of House Bill (HB) 253 on public mental health services in Missouri.

BACKGROUND

HB 253, passed by the Legislature last session but vetoed by the Governor, lowers the maximum Missouri tax rate on personal income by 0.5% over a 10-year period beginning in FY 2014. The reduction is triggered each year if the total tax revenues collected in the current year exceed the highest of the three prior years by at least $100 million. After the rate reduction is fully phased in, the maximum Missouri individual income tax rate will be 5.5%, down from 6%. The personal income tax rate will be lowered an additional 0.5% if the federal government passes the Marketplace Fairness Act establishing a nationwide internet sales tax. This federal legislation has passed the U.S. Senate by a vote of 69 to 27, but has not yet passed the House.

HB 253 also calls for a 10% deduction of business income in FY 2014 and allows a 50% deduction when fully phased in after 2017. Further, it reduces the corporate income tax rate over the coming 10 years, from 6.25% to 3.25%, conditioned on the same overall state revenue growth minimum explained above.

HB 253 also provides tax amnesty for taxpayers who are behind in their Missouri tax payments; requires the state move to a Streamlined Sales Tax collection process consistent with federal recommendations; and adjusts other state tax collection requirements.

If HB 253 is enacted over the Governor's veto, the annual fiscal impact when fully implemented is a subject of debate, with estimates generally ranging between $700 million to $1.2 billion. The accuracy of projections will be affected by the annual growth triggers specified in the bill, the potential for the federal passage of the Marketplace Fairness Act, and by provisions in the bill adding state sales taxes on prescription drugs that are now exempt from those taxes.

Factoring in increased revenue from taxing pharmaceutical drugs, the revised legislative fiscal note attached to HB 253 indicated an annual drop in state revenue of approximately $539 million upon full implementation of the bill's provisions. However, the addition of the pharmacy sales tax is proving unpopular and may be reversed by the Legislature. This could further reduce state revenues up to $200 million annually.

Congress is ultimately likely to pass a nationwide internet sales tax similar to the one proposed in the Marketplace Fairness Act. The State Budget Office has estimated that this would result in the loss of $340 million in state revenues annually through the provisions of HB 253. This loss in income tax would eventually be offset through higher sales tax collections estimated at $80 million for General Revenue. Thus, this provision would further reduce revenues a net estimate of $260 million per year.

IMPACT OF THE FULL IMPLEMENTATION OF HB 253 ON THE DMH GR BUDGET

The DMH annual operating budget is $1.6 billion, of which $655 million is funded through state General Revenue (GR) funding. This does not include employee fringe benefits and some facility maintenance costs, which reside in other department budgets but are associated with DMH programs. When adding in the cost of employee fringe benefits and the facility operating cost of DMH programs, the total rises to $776 million GR. That comprises roughly 9.4% of all GR now spent by the state in a given year. Therefore, if HB 253 is fully enacted, DMH must assume that it will need to reduce its core GR budget by that percentage in the next 10 years in order to manage its share of the total GR reduction required. If Congress were to enact the Federal Marketplace Fairness Act, DMH would have to accelerate the timing of its budget reductions.

It cannot be assumed that DMH would be exempted from part of its share of the state's revenue losses. Other state agencies that rely heavily on GR dollars, such as the Departments of Higher Education, Elementary and Secondary Education, Corrections, Public Safety and Social Services-MO Health Net Division, will not be in a position to assume more than their share of the revenue losses. In fact, some of these departments may not be able to take their full share of the GR cuts due to entitlements, mandatory client growth, or legal restrictions.

For purposes of this analysis, DMH has assumed a HB 253 impact on state GR of $700 million annually. In reality, DMH's share of the core reductions could range from $66 million to $100 million in coming years, depending on variables described above.

To net a $66 million GR reduction, DMH has to cut its GR spending by $87 million. DMH has taken over $100 million of GR budget cuts since 2008, and because of this, DMH now has limited options left to cut. Its remaining options will also decrease federal earnings generated for the state. It is estimated that the cuts in this proposal will reduce federal earnings deposited into GR by $21 million. In addition DMH would also lose $76 million in federal matching funds and other associated funds. As a result, the $66 million GR cut would trigger a total fund reduction of $164 million to DMH's budget (combined state and federal funds).

A word about the $100 million annual state revenue growth triggers in HB 253:

While the annual phase-in of HB 253 is dependent on annual state revenue growth triggers, even if these triggers work as described, DMH believes the triggers have been set too low. Unavoidable annual inflationary costs across state departments for expenditures such as fuel and utilities, food services, health care and pharmacy for clients have cost more than $100 million in recent years.

Changes in federal or state Medicaid policy or enrollment can also drive mandatory costs. In addition the Department of Corrections (DOC) continues to see growth in its prison populations, and DMH faces mandatory growth in the number of sexual predators referred by the courts for high-security involuntary commitment. These are examples of mandatory costs that cannot be avoided.

DMH GR core budget changes over the last five years:

As a result of the nation's severe economic downturn, DMH has reduced its GR spending by approximately $100 million since 2008. It did so in a number of difficult and unpopular changes, including:

- Reduced state-operated mental health institutional beds, including elimination of over 300 acute inpatient beds;

- Closed state-operated developmental disabilities habilitation center beds and changed operations in other habilitation centers to reduce costs;
- Converted as much program funding as possible from GR to federal fund sources in all its program divisions; and
- Slashed administrative costs across the board to a point that less than 1.2% of all DMH funding is spent on administrative services, which is far below private sector administrative rates.

A key result of the loss of the $100 million in GR funding since 2008 is that DMH has become much more reliant on Medicaid and other federal sources for its program funding. Currently, a large portion of the DMH GR budget is used to match federal dollars, both to assure that millions of dollars in annual federal disproportionate share reimbursements are returned to the state's General Fund and to replace funding for DMH programs formerly supported by state GR appropriations. As a result, when DMH cuts a dollar of its GR budget, it often loses federal matching dollars. The flexibility of the current DMH budget is far less than it was in 2008.

The limited GR dollars left in the DMH budget that do not match Medicaid are used for housing for people with serious and persistent mental illness, for drug and alcohol treatment for DOC offenders in the community, for Autism services for children not Medicaid eligible, for pharmacy costs for people with mental illness who are uninsured, for services to seriously emotionally disturbed youth who are not Medicaid eligible, and so on.

For the above reasons, DMH has developed targeted scenarios based on a projected state GR loss of $700 million. To cut more would be untenable to public mental health services in Missouri. Even to reach the net $66 million reduction target, DMH will actually have to cut approximately $87 million GR from its budget to overcome the $21 million-plus loss of DMH-generated federal funds to the state's General Fund.

ANALYSIS OF IMPACT

The following paragraphs highlight the ten most significant program actions DMH would take to reduce its GR core budget by $87 million if HB 253 is enacted. These are examples, and do not represent the entirety of actions necessary to achieve that level of net core reductions:

1. ***Cut Developmental Disability (DD) Provider Rates by 5.5%*** **($11 million).** DD providers serve developmentally disabled individuals, often for a lifetime. When these individuals enter services or a provider begins a service, such as opening a group home, rates and budgets are established. Over the years, these rates have not been adjusted for inflation. DMH projects that many of our 1,200 agencies providing services are now paid less than 75% of the actual current cost of an individual's care, impacting the quality of their services. In the FY 2014 budget, the legislature appropriated $8.9 million to adjust a portion of these inequities. This generates a total of $23 million with the matching federal funds added. The Governor restricted this spending in anticipation of the impact of HB 253. If HB 253 is enacted, this means that DD providers will lose the rate adjustment ***and*** their current rates will be cut by another 5.5%. Some will go out of business. The $11 million cut in GR will result in the additional loss of more than $17 million in federal Medicaid matching funds making a net cut of more than $28 million below existing rates.
2. ***Close the 44-bed Hawthorn Children's Psychiatric Hospital and residential care facility*** in St. Louis **($9.6 million)**.

3. ***Eliminate Housing funding for 1,520 seriously and persistently mentally ill individuals***, many of whom will become homeless **($7.3 million)**.

4. ***Close six Developmental Disability Regional Offices*** (Albany, Hannibal, Joplin, Kirksville, Poplar Bluff and Rolla). These offices provide eligibility determination, case management, crisis and medical services, and federally required quality assurance. All such functions will need to be consolidated in the remaining five Regional Offices and will cause significant travel hardships for out-state families with DD loved ones **($4.6 million)**.

5. ***Close the 32-bed Cottonwood Residential Treatment Center for children*** in Cape Girardeau. **($3.7 million).**

6. ***Cut non-Medicaid GR-only services for individuals with developmental disabilities in DD Waiver programs*** **($3.5 million).** These services include housing, dental services, and the Choices for Families program. The Choices program allows families to hire individuals or purchase items from a provider of their choice using a voucher system. Families are reimbursed for the costs of respite, transportation, supplies and other services necessary to support their child at home.

7. ***Reduce funding for the five DMH Autism Regional Projects across Missouri*** **for non-Medicaid eligible individuals by 25% ($1.8 million)** ***and reduce DMH funding to the Missouri Autism diagnostic centers by 25%*** (**$1.0 million**).

8. ***Close the 16-bed Southwest Missouri Psychiatric Rehabilitation Center*** in El Dorado Springs (**$2.8 million**).

9. ***Close five of the remaining seven state-operated developmental disability habilitation centers*** (Marshall, Higginsville, Sikeston, Poplar Bluff, St. Charles), leaving open only the St. Louis DDTC-South County Campus serving medically fragile individuals and Bellefontaine Habilitation Center, which will be reduced from a total of 138 beds to 100 beds **($2.0 million savings annually** after moving residents to community settings and assuring crisis services for those who struggle in those settings).

10. ***Eliminate GR-only funded services for 807 people with low incomes who are recovering from mental illness or substance abuse disorders*** who do not qualify for Medicaid and ***for 38 severely emotionally disturbed youth*** who do not qualify for Medicaid **($1.7 million)**.

These and other actions represent a loss of 850 DMH positions.

In addition to the above reductions, DMH would cut at least $3.0 million from an already tight budget for administrative and client support services at the DMH Central Office and in its program divisions.

Many smaller programs of $1.0 million or less are not included in the above "Top 10" actions. As examples, DMH would eliminate:

- $1.0 million in funding for the Psychiatric Stabilization Center in St. Louis, which provides short inpatient stays to people with mental illness, many of whom are dangerous to themselves or others.

- Funding for detoxification beds at Truman Medical Center in Kansas City ($427,000) which serves people who are dangerous to themselves or others due to heavy alcohol or drug use; and $750,000 allocated to the St. Joseph community for detoxification services.

- Funding for a Veterans housing services program operated by St. Patrick Center in St. Louis costing $255,000.

Even with all the actions described, and others not detailed in this analysis, it may not be enough to handle DMH's share of the reductions triggered by HB 253. DMH will likely need to ask the Missouri Legislature to change the way services for sexual predators are delivered. These are individuals who have served maximum sentences in DOC prisons and must be released, but who have been determined by DOC to be highly likely to repeat violent sexual offenses. Currently, these individuals are involuntarily committed to high-security DMH inpatient programs at Farmington and Fulton. Each year, about 20 additional sexual predators are added to these programs at a cost of over $2.0 million. DMH would need to ask the Legislature for statute changes that allow future court committed individuals to be monitored with outpatient treatment services in communities across the state.

One of the most devastating potential losses triggered by HB 253 for DMH would be the inability to replace a severely aging high-security campus for patients with severe mental illness at Fulton State Hospital (FSH), the oldest state psychiatric hospital west of the Mississippi. The FSH campus houses the most dangerous Missourians with severe mental illnesses. These individuals are committed by the courts throughout the state for evaluation and treatment, or for evaluation to determine if they are competent to stand trial for a crime they recently committed.

DMH is confident that there is strong and broad commitment by legislative leaders and the Governor to rebuild Fulton State Hospital. The FY 2014 budget included $13 million to begin that process. It has now been set aside in anticipation of HB 253 impacts. It is hard to imagine a scenario in the next 10 years that would allow the rebuilding of FSH if HB 253 is enacted.

For more detailed information on the DMH analysis of the impact of HB 253 on public mental health services in Missouri, please contact Dan Haug, Director, Division of Administrative Services (Dan.Haug@dmh.mo.gov).